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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

DDI #520-82
21 January 1982MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : National Intelligence Officer for Warning

FROM

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Acting National Intelligence Officer for USSR-EE

SUBJECT : Monthly Warning Assessment: USSR-EE
(Meeting held on 19 January 1982)

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1. Introduction and Highlights. The meeting was devoted to bringing out issues to which greater attention should be paid in 1982 than in the past--either because they have tended to be overshadowed by more dramatic events or because they are likely to become more important. This report is not a comprehensive list of issues to watch in 1982 but rather a listing of emerging or underemphasized points of concern. The most noteworthy issue discussed was the possible evolution of Soviet policy in the Middle East to take advantage of new opportunities; the paucity of reliable information from Iran further complicates the situation for the US. (see para. 3a.).

2. Issues With Soviet/Eastern Europe Domestic or Intra-regional Focus.

a. COMECON/Economic Problems. Although the worsening economic situation affecting the COMECON countries is generally recognized, not enough thought has been given to some possible ramifications:

-- Effect of the worsening East European economic situation on the Soviet economy and possibly on Soviet foreign policy.

I -- In East/West terms, will Eastern Europe be able to retain its credit worthiness? Poland's plight is well known but Romania is also in dire straits--deteriorating economy and a one billion dollar arrearage on its eleven billion dollar debt. Would a de jure or de facto default debt on the part of any COMECON country trigger more defaults? What would be the impact on Yugoslavia? In a broader sense, what are the implications of

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Eastern Europe's precarious financial situation
and possible default for US policy toward
Eastern Europe and the USSR?

- What are the ramifications of further US/NATO
sanctions brought about by Polish developments?
- What effect could the Eastern Europe economic
disarray have on NATO?

b. Succession. The looming Soviet succession has distracted
our attention from similar prospects in other countries--most
especially in Hungary, Czechoslovakia, East Germany and Bulgaria,
whose leaders are all around 70. Besides having a domestic impact,
the departure through retirement or death of any of these leaders
will disrupt long-established bloc-wide personal networks, partic-
ularly if two or more leaders leave in the same time frame. What
will be the effect on COMECON and the Warsaw Pact?

c. Soviet Stringencies. Will the combination of East European
unrest (e.g., Poland, Romania), deteriorating food supplies, and
decreasing investment funds eventually have an impact on Soviet
politics:

- Increase of consumer frustration to the worrisome
level?
- More tugging and hauling between regions/ethnic
groups for investments with attendant implica-
tions for historical rivalries?
- Realization that the hitherto sacrosanct defense
expenditures may have to level out, be passed
on to the East Europeans, or even be cut?

d. Romania. Its troubles are not only economic but also political.
Will Ceaucescu be able to hold on and will any regime be able to maintain
as firm a grip on the country as in the past?

e. Yugoslavia. The country has survived Tito's death, but its
collective leadership has so far been unable to make the economic
decisions needed to make the country's products competitive in the
western market, into which the Yugoslavian economy has become
integrated. These economic decisions are difficult because they
affect regional prosperity and, if and when made, could exacerbate
regional rivalries.

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f. Albania. Yugoslavia is already very sensitive to perceived Albanian ill-will in the Kosovo question. What effect will Hoxha's death have (he is 73 years old)? Could it lead to renewed Soviet involvement in the country--with increased problems for Yugoslavia and the possible return of Soviet military power (e.g., a submarine base) into the region.

3. Issues With a Soviet External Focus.

a. Middle East. Are Soviet prospects in the region improving because of some recent developments, such as Israeli intransigence, the death of Sadat, the alleged increase in Soviet involvement in Iran, and possible positioning of the USSR as a mediator in the Iran/Iraq war? It was noted that the paucity of good intelligence from Iran has left us in the dark about developments there. Priority attention should be paid to this problem.

b. Finland. How will Moscow react to its inability to bring about the election of its favorite candidate to the presidency? Will there be a change in Soviet/Finnish relations?

4. Follow-on Actions. Work dealing with some issues is already under way--e.g., Soviet/East European economic questions. We shall take all the issues raised into account for future meetings and for interagency work.

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